

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 EB-08 TRSE-00 OMB-01 IGA-02 XMB-02
IO-13 FRB-03 CEA-01 STR-04 /095 W
-----290552Z 028051 /11

R 281037Z APR 77
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 3832

C O N F I D E N T I A L SECTION 1 OF 2 BEIRUT 1957

E.O. 11652: GDS
TAGS: EAID, PFOR, LE, US
SUBJEC: ECONOMIC AID TO LEBANON

1. SUMMARY. THIS IS THE SECOND OF FOUR TELEGRAMS ON BILATERAL ISSUES TO BE DISCUSSED DURING AMBASSADOR'S CONSULTATION IN WASHINGTON. BRIEFLY, GOL HAS YET TO GET ITSELF ORGANIZED FOR RECONSTRUCTION, AND LITTLE PROGRESS HAS BEEN MADE TO DATE. THE GOL IS ADOPTING A TWO-TRACK APPROACH TO RECONSTRUCTION, BUT PRIVATE INVESTMENT IS HELD UP BY UNCERTAINTY ABOUT THE SECURITY AND POLITICAL SITUATIONS. IN THIS CLIMATE, THE PSYCHOLOGICAL GESTURE IS AS IMPORTANT AS THE POSITIVE ACCOMPLISHMENT. AMBASSADOR BELIEVES THAT \$20 MILLION AID PROGRAM FOR FY 78 IS REASONABLE AND SUGGESTS THAT BETWEEN NOW AND OCTOBER WE IDENTIFY PROJECTS, OR ACTIVITIES WHICH WE COULD FINANCE AND WHICH WOULD HAVE MAXIMUM STIMULATING IMPACT. END SUMMARY.

2. ALTHOUGH THERE HAS BEEN PERCEPTIBLE PROGRESS IN A FEW AREAS, SUCH AS THE PORT OF BEIRUT, THE RECONSTRUCTION OF LEBANON REMAINS LARGELY IN THE REALM OF TALK AND SPECULATION. THE RECONSTRUCTION AND DEVELOPMENT COUNCIL IS JUST GETTING ORGANIZED AND WITH A FEW EXCEPTIONS THE OTHER GOVERNMENT DEPARTMENTS, WHICH HAVE NEVER HAD THE HABIT OF INTERVENTION IN ANY CASE, DO NOT KNOW WHERE TO
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BEGIN. THE RESULT HAS BEEN MUCH BACKING AND FILLING, DUPLICATION, WASTED EFFORT, GENERAL FRUSTRATION, AND NOT A LITTLE IRRITATION OF WOULD-BE DONORS, PARTICULARLY WHEN THEY DISCOVER THAT THE LEBANESE ARE ASKING DIFFERENT DONORS FOR THE SAME THING, ON THE THEORY THAT ONE OF THEM MAY BE FORTHCOMING.

3. THE SITUATION IS COMPLICATED BY THE ABSOLUTE LACK OF RELIABLE DATA ON THE EXTENT OF NEED, SUPPLIES ON HAND, THE NUMBER OF PEOPLE, OR ANYTHING ELSE A MODERN ECONOMIST NEEDS BEFORE HE CAN MAKE DECISIONS. FINALLY, DATA OR NOT, THE LEBANESE GOVERNMENT IS SO DISORGANIZED BY TWO YEARS OF WAR THAT IT IS UNABLE TO PROVIDE EVEN THE LIMITED SERVICES OF THE PRE-WAR PERIOD. IT IS ENOUGH TO MAKE A DESK OFFICER TEAR HIS HAIR AND BITE THROUGH HIS PIPESTEM.

4. THERE SEEMS TO BE NO EASY WAY TO SOLVE PROBLEM, BUT THERE ARE SEVERAL BROAD LINES ON WHICH WE CAN FOCUS AND PERHAPS MAKE SOME BASIC DECISIONS. FIRST OF ALL, SOME GENERAL OBSERVATIONS:

A. THE GOVERNMENT HAS CHOSEN A TWO-TRACK APPROACH TO RECONSTRUCTION. IT IS SOLICITING LOW-COST, LOW-INTEREST PROJECT LOANS TO REBUILD THE COUNTRY'S INFRASTRUCTURE AND IT IS SEEKING GOVERNMENT-TO-GOVERNMENT LOANS TO CHANNEL TO THE PRIVATE SECTORS VIA THE RECONSTRUCTION AND DEVELOPMENT COUNCIL, THE CENTRAL BANK AND THE COMMERCIAL BANKS.

B. THE PROBLEM IS MORE ONE OF SECURITY THAN OF MONEY. ONCE THE LEBANESE ARE CONFIDENT ABOUT THE FUTURE, AND SPECIFICALLY ABOUT THE SECURITY OF WHATEVER THEY DECIDE TO REBUILD, THE MONEY FOR RECONSTRUCTION WILL BE FORTHCOMING FROM THE PRIVATE SECTOR.

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C. SECURITY RESTS IN THE FINAL ANALYSIS ON 1) BUILDING UP THE SECURITY FORCES, 2) AT LEAST AN INTERIM RECONCILIATION BETWEEN THE PRINCIPAL FACTIONS, AND 3) SOME SORT OF A NATIONAL CONSENSUS AS TO THE FUTURE OF THE COUNTRY. THIS IS GOING TO TAKE A MINIMUM OF A YEAR, ALTHOUGH THE PACE WOULD BE CONSIDERABLY QUICKENED IF THERE WERE PROGRESS ON A PALESTINE SETTLEMENT.

D. IN THE MEANTIME, THE ECONOMIC PUMP MUST BE PRIMED. PRIVATE FINANCIAL INSTITUTIONS WILL NOT DO IT. AS DAVID ROCKEFELLER SAID, "YOU GET THE PUMP PRIMED AND WE'LL BE GLAD TO WORK THE HANDLE." THE ONLY LIKELY SOURCE OF SUCH PRIMING IS INTERNATIONAL AND GOVERNMENTAL FINANCIAL INSTITUTIONS -- THE IBRD, THE VARIOUS ARAB FUNDS, PERHAPS THE EED, NATIONAL GOVERNMENTS AND EXPORT-IMPORT BANKS. (OF WHICH SO FAR ONLY THE AUSTRIAN AND BRITISH HAVE SHOWN A READINESS TO PARTICIPATE, THE AUSTRIAN KONTROL BANK

IS PREPARED TO FINANCE UP TO \$50 MILLION IN EXPORTS,
WE ARE TOLD BY THE AUSTRIAN AMBASSADOR. THE ECGD IS
GIVING GUARANTEES BUT NO LOANS.)

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ACTION NEA-10

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FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 3833

C O N F I D E N T I A L SECTION 2 OF 2 BEIRUT 1957

E. SINCE THE HESITATION OF THE PRIVATE INVESTOR
IS LARGELY A SUBJECTIVE REACTION, GESTURES OF FOREIGN
CONFIDENCE ARE ALMOST AS IMPORTANT FOR THEIR
PSYCHOLOGICAL CONTENT AS THEY ARE FOR THEIR SUBSTANCE.
WE ARE, FOR INSTANCE, GETTING A GREAT DEAL OF MILEAGE
OUT OF OUR VERY MODEST PORT IMPROVEMENT PROGRAM, AND
THE ARRIVAL OF THE FIRST SHIPMENT OF EQUIPMENT HAS
HAD A VISIBLE TONIC EFFECT, SIMPLY BECAUSE IT IS THE
FIRST CONCRETE MANIFESTATION OF OUR \$50 MILLION
PACKAGE. A LITTLE MONEY PROPERLY PLACED WILL OFTEN
HAVE AN IMPACT OUT OF PROPORTION TO ITS REAL VALUE
BECAUSE THE LEBANESE ARE DESPERATELY LOOKING FOR
REASSURANCE.

F. IF WE UNDERSTAND OUR OWN SITUATION CORRECTLY,
WE ARE UNLIKELY TO HAVE LARGE AMOUNT OF MONEY
AVAILABLE FOR BUDGETARY ASSISTANCE TO LEBANON --
WHICH WOULD BE THE ONLY WAY TO HAVE A MAJOR
SUBSTANTIVE, AS OPPOSED TO PSYCHOLOGICAL, IMPACT ON
THE RECONSTRUCTION PROCESS. WE SHOULD THEREFORE
LEAN TOWARDS THE PSYCHOLOGICAL APPROACH.

6. WE UNDERSTAND THE AID BUDGET FOR FY 78 CONTAINS
\$20 MILLION FOR LEBANON. WE BELIEVE THAT IS A
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REASONABLE AMOUNT, AND THAT BETWEEN NOW AND NEXT OCTOBER WE SHOULD DETERMINE, IN COOPERATION WITH THE RECONSTRUCTION AND DEVELOPMENT BOARD, HOW IS CAN BEST BE SPENT TO STIMULATE ECONOMIC RECOVERY. IN GENERAL, WE ARE INCLINED TO BELIEVE THAT IT COULD BEST BE SPENT ON FINANCING SEVERAL SPECIFIC PROJECTS, OR STUDIES RATHER THAN BEING PUT AS ONE SUM INTO ANY ONE ACTIVITY. IT IS SYMPTOMATIC OF THE PRESENT STATE OF AFFAIRS, HOWEVER, THAT AT THIS POINT WE ARE NOT PREPARED TO SUGGEST A SPECIFIC PROJECT TO FINANCE. ONE REASON IS THAT WE DO NOT KNOW WHAT THE ARAB FUNDS WILL FINANCE.

7. I HOPE TO DISCUSS THIS IN MORE DETAIL WITH AID/W, BUT PUT THE ABOVE FORTH AS FIRST STEP TOWARDS ANALYSIS OF A CONFUSED AND COMPLEX SITUATION.
PARKER

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